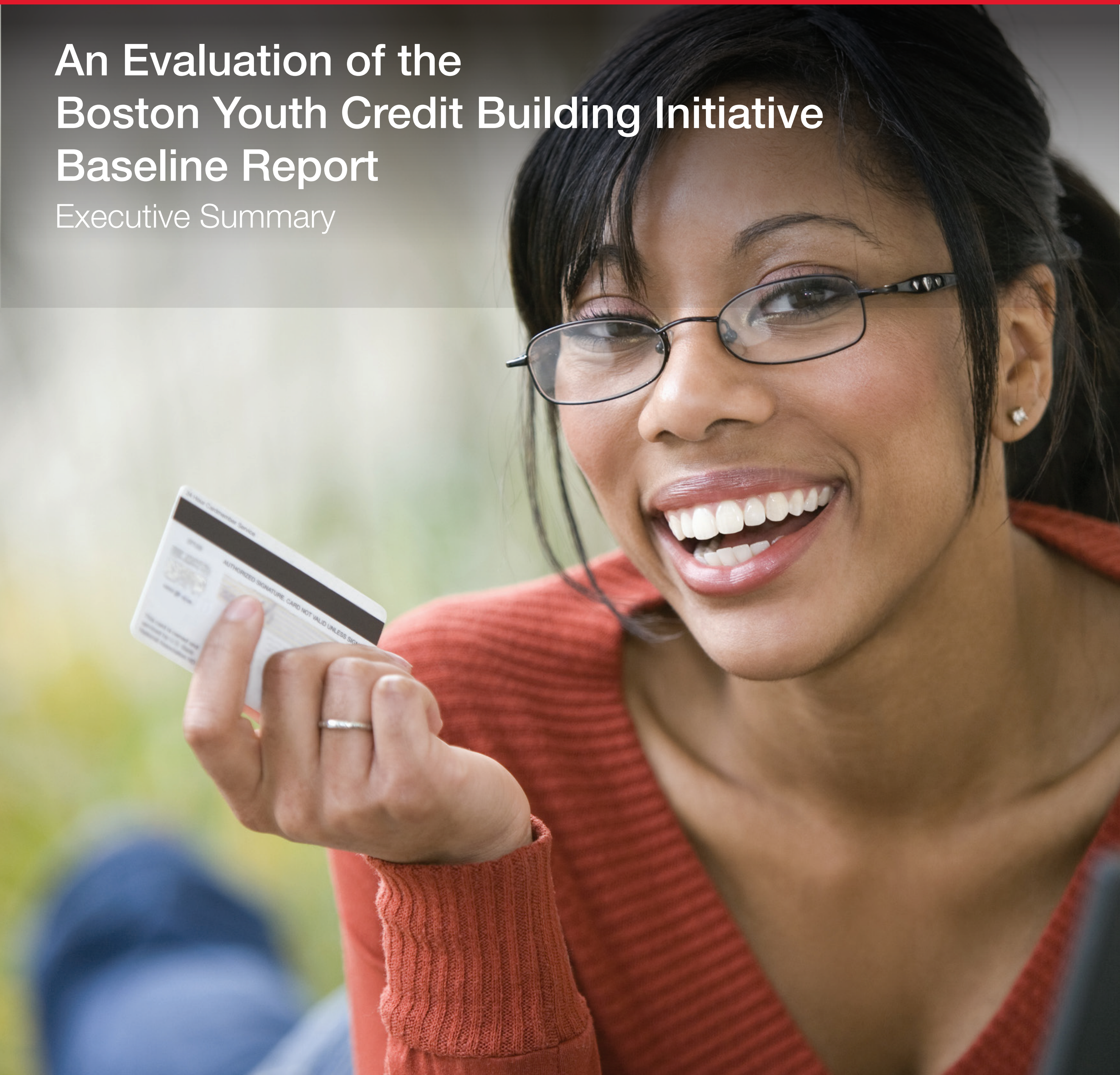
Northeastern University
Dukakis Center for Urban and Regional Policy

An Evaluation of the Boston Youth Credit Building Initiative Baseline Report

Executive Summary



Mayor Martin J. Walsh's Office of FINANCIAL EMPOWERMENT

WORKING CREDIT NFP

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Executive Summary

The current credit reporting system in the U.S. creates a barrier for millions of low-income individuals with poor or no credit to fully participate in the mainstream financial system. Yet good credit is essential to achieving and maintaining financial stability, accessing opportunities, and building a future that allows individuals to pursue their career and life goals. For example, nearly half of employers use credit checks when making a hiring decision, suggesting that having bad credit can be an additional barrier to landing a job—especially for positions that handle payments (Society of Human Resource Management, 2012). Unfortunately, individuals with no credit score – or poor credit scores – cannot easily access credit-building financial products, leaving them with few opportunities to improve their financial situation. Financial capability programs can fill that gap by providing accurate and timely information on how the credit reporting system works, access to products that report to the credit bureaus, and support throughout the loan period from credit building counselors.

The Boston Youth Credit Building Initiative, developed by Mayor Walsh's Office of Financial Empowerment and implemented by Working Credit NFP, aims to build financial capability among low-income young adults. By helping young adults build or improve their credit history at a point in time when the information is relevant to their lives, the hope is that they can apply this knowledge in real-time and perhaps avoid making common mistakes that have long-lasting consequences. Specifically, the program implemented by Working Credit provides a workshop that teaches participants how the credit reporting system works, one-on-one financial coaching on how to build or improve their credit history, and access to a secured loan and savings product that can be used to directly improve their credit score—at a time when many of these individuals are becoming financially independent. The basic premise of the program is to act as an "early intervention" to boost financial capability and develop good financial habits at a formative time when individuals are starting to build their credit history.

To our knowledge, the Boston Youth Credit Building Initiative is one of the first in the U.S. to implement such a program for young adults and evaluate the outcomes in a rigorous manner. Based on the experience of employer programs with similar models, we anticipate that the Boston Youth Credit Building Initiative has the potential to improve outcomes for young adults along several dimensions. These include direct outcomes such as gaining skills and knowledge, building a credit history, and maintaining good credit—all of which follow directly from participating in the program's financial workshops, one-on-one coaching, and credit building and saving products. In addition, indirect outcomes such as the ability to maintain employment (and hence, a steady paycheck) as well as to complete college may also be positively impacted. By enhancing access to credit and reducing financial stress, participants can better focus on advancing in the workplace and furthering their education.

I. Methodology

To evaluate the program's impact, we will compare the outcomes of randomly selected individuals in the treatment group to those in the control group over time. Just over 300 individuals applied to the program, receiving a $5 gift card as an incentive for completing the application. All but a few applicants met the basic program requirements that they be 18-28 years of age and currently employed. We randomly assigned qualified applicants to one of the following two groups:

- **<u>Treatment group:</u>** This group of 150 individuals was given the opportunity to attend a financial workshop, receive one-on-one coaching, and enroll in the CW-3 product if they qualify. They receive a financial incentive of $150 at the end of the study after completing the post-survey.

- **<u>Control group:</u>** This group of 150 individuals received no intervention but is eligible to receive a financial incentive of $150 to compensate them for their involvement in the study. The incentive is paid in two installments at the beginning of the program and at the end after completing the post-survey.

Recruitment: It was necessary to cast a wide net for recruiting individuals, resulting in a total of 18 different organizations that participated in the study. While these educational and community based organizations serve low-income young adults, they do not conform to the standard model that Working Credit has developed for delivering its program. Working Credit typically offers credit building services to individuals through their employers, in the form of an employee benefit. Typically, the program starts with a credit building workshop held at a mandatory staff meeting, so that eligible employees are required to participate in the first stage of the program, even if they are not interested in the subject of credit. Recognizing this departure from the standard delivery model, with Working Credit's approval we characterized organizations as “eligible”, “near-eligible”, and “not-eligible” based on the criteria that they have (1) regular/strong contact with individuals, and (2) an employment duration that is roughly equivalent to that of the credit program (e.g., 12 months). We then stratified our random sample across the 18 organizations to be able to test whether the delivery model makes a difference and whether having a strong workforce intermediary can adequately substitute for having an employer as the primary point of contact.

Compliance: Despite having applied for the program, about one-third of the individuals assigned to the treatment group did not even attend the workshop given at the first stage of the program. We call these individuals “study non-compliers” because despite being assigned to receive the program, they did not comply with the requirements and chose not to participate. This is not uncommon among randomized control treatment studies of financial coaching programs where roughly half of participants drop out even when services are offered for free (Theodos et al. 2015). As one can imagine, it is typically lower-income and underserved populations that have “second thoughts” after applying (Rothwell and Han 2010). In general, the non-compliers in our study were significantly younger and less educated, did not have health insurance through their employer, and were more likely to be recruited from a non-eligible organization. The non-compliers were also more likely to indicate that they were unsure as to whether they would be able to save $26 per month—which may be an important indication as to why they chose not to participate after applying for the program, as that was set forth as a requirement.

We should emphasize that our study non-compliers did not even begin the program in the first place—they applied and then failed to show up at the first workshop. Under the standard Working Credit model, individuals do not apply to the program until after the initial workshop which typically yields a participation rate of over 90 percent. Indeed, among those in the study treatment group who attended a workshop, 91 percent signed up for the one-on-one coaching. As such, we report separate results for “compliers” (those who completed at least some portion of the program) versus “non-compliers” (those who did not attend any part of the program). In this way, we provide estimates of the program’s impact when using the standard delivery model while also exploring the potential reasons for the lack of participation in alternative settings when the standard delivery model cannot be implemented.

II. Baseline Characteristics and Preliminary Impacts through Six Months

This report provides the initial baseline characteristics of the treatment and control groups and also compares outcomes between the two groups during the first six months of the program. The **baseline characteristics** of the treatment and control groups are compared ***before the start of the program*** to show that the two groups are balanced according to the evaluation design and do not systematically differ from each other in terms of demographics, pre-survey responses, or initial credit histories. In addition, because very little is known about how low-income young adults perceive and use credit, this report provides a summary of the pre-survey results to paint a portrait of all study participants at baseline—before they are randomly assigned to treatment and control groups.

In addition, the **preliminary impacts through six months** are presented to provide an ***early snapshot*** of the program's potential impact. Although the program is only at the halfway mark, a comparison of the six-month credit reports demonstrates significant improvements in the treatment group that is highly encouraging. We augment these impacts with findings from our focus group discussions which occurred after the treatment group had attended the workshop.

A. Testing Baseline Characteristics before the Start of the Program

1. Pre-survey Results at Baseline

The pre-survey was administered during the application process so that baseline information could be collected for all study participants before they were randomly assigned to the treatment and control groups. The survey questions were developed based on prior national surveys and covered four major topic areas: knowledge and beliefs, confidence and concerns, habits, and financial situation.

- **<u>Knowledge and beliefs:</u>** In general, most participants in the study (treatments and controls) had fairly accurate knowledge and beliefs about credit with a few notable exceptions. For example, roughly two-thirds of individuals thought that an asset was something that *always* increased in value—clearly the recent housing crash demonstrated that this statement is not true. And about half agreed with the statement that "Credit is money you owe"—another false statement. In addition to seeing how these responses change over time, our final report will also compare responses from study participants to a nationally representative sample of young adults.

- **<u>Confidence and concerns:</u>** For the most part, participants in the study were confident in their abilities in some areas but had cause for concern in others. Upwards of 60 percent of participants felt confident in managing their finances and making financial decisions, yet only 30 percent felt they had the skills and resources to plan for the future and meet their goals. Upwards of two-thirds were concerned with paying for their monthly expenses as well as their college debt, and less than one-third were satisfied with how much money they were able to save. Among specific types of knowledge, about half reported that they knew how to make a budget but less than one-third knew how to build assets.

- **<u>Financial habits:</u>** Overall, participants did not report excessive "bad" habits with the most common bad habit being the use of a check-cashing service (10 percent). Yet the frequency of "good" financial habits was not as high as one might have hoped. For example, only about one in five had a budget and just over half deposited their money into a checking or savings account.

- **Financial situation:** In terms of their current financial situation, less than 10 percent of participants (both treatment and controls) had a negative factor, with the exception of having a collection agency contact them about unsettled claims (about 20 percent). In terms of positive factors, most participants had a checking account (over 80 percent) and a savings account (60-70 percent), and about half had one or more credit cards. However, only about 20 percent participated in a 401K or 403B through their employer. This may be due to not being eligible to participate in such a program if they have only been with their employer for a short while, if their employer does not offer such benefits, or if the job is temporary.

Treatment versus control group: As we would expect, there were few significant differences between the pre-survey responses of the treatment group and the control group for each of the above factors. All participants filled out these surveys during the application phase before they were randomly assigned to the treatment or the control group so that any initial differences at baseline between the treatment group and the control group are those that only occurred by chance. This demonstrates that our evaluation design is robust so that any significant changes between the treatment and control groups that occur from this point on can be attributed to the credit building program.

Compliers versus non-compliers: In contrast, the pre-survey responses of non-compliers (those who chose not to participate in any of the program elements even though they were randomly selected into the treatment group) differed significantly from the compliers (those who did participate) along several important dimensions. For example, non-compliers had less knowledge about credit yet reported a higher level of understanding about how to build assets and get help with money matters. Non-compliers were also more likely to use a check-casher and to have a cell phone or utility company holding a deposit compared to compliers– perhaps due to having no credit or bad credit. Finally, non-compliers were less likely to have a checking or savings account and less likely to currently have a credit card, although more likely to have had one in the past.

2. Credit Report Characteristics at Baseline

A baseline credit report was pulled for all applicants prior to the start of the program to be able to compare the initial characteristics of the treatment and control groups. Working Credit collected data from the credit reports including credit scores, types of credit used, and payment histories.

- **Credit scores:** In general, most participants had room to improve their credit scores, although to varying degrees. About 30 percent of the participants in the study (treatment plus controls) had no credit score at all. Another 25 percent had scores in the poor (>0 but below 600) or fair (600-660) range. Upwards of 40 percent had fair good (661-780) scores, while only five percent had excellent (>780) credit.

- **Credit use history:** At present, it seems that many young adults are sitting on the sidelines when it comes to using credit. Upwards of 40 percent of participants had no current open lines of credit and another 20 percent had only one or two lines. While only about three percent of participants were delinquent (30 days past due), upwards of 30 percent had at least one outstanding negative (collections, charge-offs, judgments).

- **Loan payment history:** Few participants had a good track record when it came to making loan payments—either because they did not have a loan, lacked 12 months of payment history, or had a poor payment history. Although about 40 percent of participants had a student loan, less than 10 percent had a car loan. Among those who had any type of loan, about one-third of participants had a history of being 30 days delinquent and about half lacked a history of sustained on-time payments. However, only five percent had a history of paying off a collection.

Treatment versus control groups: Again, as we would expect, there were no significant differences between the treatment groups and the control group in terms of credit scores, credit use, and loan payment history at baseline before the start of the program with the exception of the number of open lines of credit. The treatment group had significantly fewer open lines of credit compared to the control group—even before the program started. However, it is likely that at least one out of the 15 different characteristics that we compared could be significant by chance. By any standard, our evaluation design would still be considered robust so that any significant changes between the treatment and control groups that occur from this point on can be attributed to the credit building program.

Study compliers versus non-compliers: In contrast, the credit reports of the non-compliers (those who chose not to participate in the study even though they were randomly selected into the treatment group) differed considerably in terms of their credit histories at baseline compared to those that complied. These study non-compliers were nearly twice as likely to have no credit score and nearly three times as likely to have scores in the “bad” range compared to the compliers. In addition, study non-compliers were far more likely to have no open lines of credit and no history of sustained on-time payments. Among study non-compliers who did have a credit history, they were more likely to be 30 days delinquent and/or have an outstanding negative.

B. Preliminary Impacts through Six Months

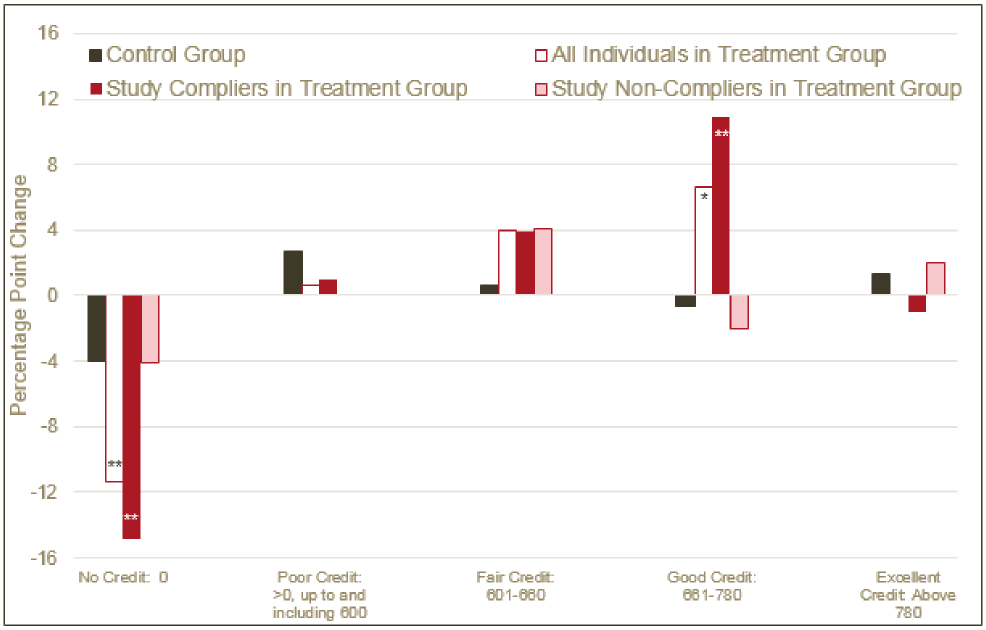
1. Changes in Credit Report Characteristics at Six Months

In accordance with the evaluation plan, Working Credit pulled the credit reports of all participants in the study (treatment and control groups) six months after the program began. This interim measure was designed to give an early indication of the program’s potential impacts. The full impact of the program will be evaluated at the end of the study, after 12 months, at which time Working Credit will again pull each individual’s credit histories and OFE will administer the post-survey.

The initial six-month credit pulls indicate positive and statistically significant results regarding both credit use as well as loan payment history. In both cases, the changes were statistically significant for the treatment group relative to the control group and were entirely driven by those individuals who complied with the program (see Figures E1 and E2). The preliminary impacts indicate that:

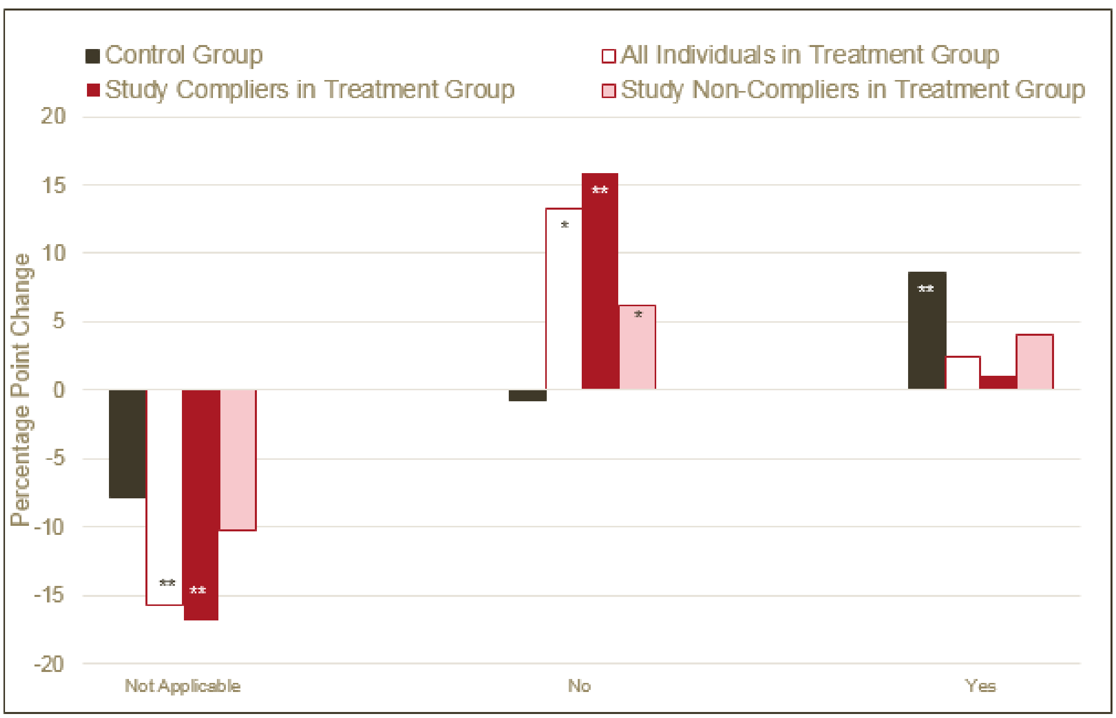
- **Credit history:** The share of individuals with no credit history fell by 11.3 percentage points for the treatment group versus only 4.0 percentage points for the control group.
- **Credit score:** The share of individuals with good credit scores increased by 6.7 percentage points in the treatment group versus a decline of -0.7 percentage points for the control group.
- **Delinquency:** The share of individuals not delinquent jumped by 13.3 percentage points for the treatment group versus a decrease of -0.8 percentage points for the control group.

Figure E1. Credit Report Scores: Percentage Point Change Over Six Months



Source: Authors' calculations based on data supplied by Working Credit to Northeastern University, which acts as Working Credit's agent to study its credit building program.
Note: **Differences between compliers and non-compliers are statistically significant at the 5 percent level.

Figure E2. History of 30-Day Delinquent: Percentage Point Change Over Six Months



Source: Authors' calculations based on data supplied by Working Credit to Northeastern University, which acts as Working Credit's agent to study its credit building program.
Note: **Differences between compliers and non-compliers are statistically significant at the 5 percent level.

2. Focus Group Discussions

Just after the start of the program, we held two focus groups in May 2016—one for individuals in the treatment group and one for individuals in the control group. Note that these focus groups were held after the treatment group had participated in the workshop and one-on-one coaching provided by Working Credit. The goal was to get an early assessment of how the program was going, as well as to uncover additional insights about recruitment.

Frequency of themes: In the treatment group, a discussion of credit history, lessons learned in the credit workshop and counseling, and strategies for dealing with credit was prevalent. In the control group, approximately a third of the time was devoted to credit history and strategies for dealing with credit, but discussions of the participants' dire financial situations and their lack of financial guidance/ sparse background in financial literacy clearly dominated the conversation. These two areas received little attention in the treatment group. To some extent, this is to be expected, since the control group would not have any lessons learned to report; the group's preoccupation with skills needed or lacking reflected the need among this group of low-income working young adults for credit and financial education.

Co-occurrence of themes: In both groups, regret over past credit mistakes appeared to affect current feelings and behaviors yet the treatment group was more able to be forward-looking. However, while in the treatment group these feelings appeared correlated with not having specific, identifiable skills (financial planning, using a credit card responsibly), in the control group these feelings were entwined with the members' financial situations (low income, high household costs, young people needing to work to help their family financially). This suggests that the credit workshop and counseling may encourage participants to channel their financial worries into specific, potentially surmountable challenges, and help them to focus on sources of concern over which they have some control. In addition, the difficult financial situation of control group members surfaced much more frequently during the focus group conversation than the treatment group, potentially reflecting this group's feeling of helplessness and floundering for solutions on this topic.

A sense of being good at managing cash and credit was correlated in the treatment group with the feeling that group members needed additional money management or credit skills. It is possible that a feeling of self-confidence may derive from an internal locus of control, which also prompts individuals to seek additional skills because of a higher sense of self-efficacy in using those skills. Whether self-efficacy may be increased through educational programs, and whether it results in better financial outcomes, may be examined when comparing the post-program survey results of treatment versus control groups.

Conclusions and Next Steps

The baseline report has highlighted a number of potentially interesting findings. For example, the pre-survey data indicates some deficits in terms of knowledge about credit among low-income young adults that provide low-hanging fruit for programs to address through the one-hour workshop. Similarly, the credit report data demonstrate that for about one-third of the participants, the biggest problem is having no credit history—an encouraging sign that intervening at this point in their lives can potentially prevent future missteps. Finally, the initial six-month credit pulls indicate several positive and statistically significant results regarding both credit use as well as loan payment history.

However, the report also highlights the need to be careful in how we report and interpret the results of the Boston Youth Credit Building Initiative and this study. Despite having applied for the program, about one-third of individuals assigned to the treatment group did not attend a workshop nor a one-on-one coaching session. Although this is a better compliance rate than other randomized control treatment studies of financial coaching programs, it will be important for us to continue tracking all individuals to provide assessments and recommendations of how to improve outcomes for individuals who applied and participated as well as individuals who applied but did not comply.

Going forward, individuals in the treatment and control group will continue to be monitored by Working Credit with credit pulls occurring at 12 and 18 months after the start of the program. The survey will also be administered again at 12 months when the program ends to assess improvements in knowledge and practices regarding credit building. Finally, we will conduct another round of focus groups at the 12 month mark to gain valuable insights into the various mechanisms behind the observed outcomes, which features of the program seem most effective, and why some individuals who were randomly selected chose not to participate. Our hope is that this study, by providing one of the first robust evaluations of credit building among low-income youth, will yield practical lessons and guidance that can be used by policymakers in other cities who are considering the development of similar programs.

For more details, please download ***An Evaluation of the Boston Youth Credit Building Initiative: Baseline Report*** from the Office of Financial Empowerment's website at https://ofe.boston.gov/ .

Acknowledgements

Any report of this scope and magnitude requires the assistance of a variety of organizations and individuals. We gratefully acknowledge the time and effort put forward by the members of the organizations listed below who provided us with helpful guidance about the population, the recruitment process, and the program itself. We could not have accomplished this work without their insights and knowledge. We also wish to thank the City of Boston for developing this initiative, and Working Credit NFP for requesting this research. We hope that this baseline report is a useful addition to the dialogue about the City's effort to help young adults build credit. Any errors in the analysis or conclusions are entirely our own.

Citi, the leading global bank, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management. Additional information may be found at http://citicommunitydevelopment.com

The Mayor's Office of Workforce Development (OWD) is an innovative public agency that seeks to promote economic self-sufficiency to ensure the full participation of all Boston residents in the city's economic vitality and future, seeking to connect low-income residents with job training and employment opportunities and to promote lifelong literacy and educational pathways. The primary focus of OWD is to enable competitive workforce development initiatives and policies to put Boston's youth and adults on career paths toward economic security. While OWD continues to support adult basic education, ESOL and HiSET related programs, OWD stresses the importance of collaboration with the City's workforce development and education initiatives, with an overall emphasis on empowering Bostonians to fulfill their educational and employment aspirations.

Report Team

Northeastern University
Dukakis Center for Urban and Regional Policy

As a “think and do” tank, the Dukakis Center’s collaborative research and problem-solving model applies powerful data analysis, multidisciplinary research and evaluation techniques, and a policy-driven perspective to address a wide range of issues facing cities, towns, and suburbs, with a particular emphasis on the greater Boston region. Northeastern University conducted the evaluation on behalf of Working Credit.

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WORKING CREDIT NFP

Working Credit is a nonprofit organization that brings credit building services and products to workers in the form of an employee benefit, including its innovative CW-3™ credit building product. Working Credit implemented the Boston Youth Credit Building Initiative by modifying their credit building model to serve OFE’s young adult worker population, many of whom currently participate in government-funded workforce development programs. Northeastern University conducted the evaluation on behalf of Working Credit.

Contributors: Ricki Lowitz, Kristin Schell, Niki Volz

Mayor Martin J. Walsh’s Office of
FINANCIAL EMPOWERMENT

The Office of Financial Empowerment (OFE) works to link Boston residents seeking financial security and wealth generation with access to capital, financial education, and financial services. OFE developed the concept of the Boston Youth Credit Building Initiative, which included a formal evaluation, and engaged Working Credit to implement the program. After Working Credit directed Northeastern University to design the evaluation, OFE was responsible for recruiting study participants. OFE is a part of the Office of Workforce Development. OWD and the City of Boston provided a grant of $110,000 to help fund this project as well as staff time to manage it.

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